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**MMARS Policy: Accounts Payable**

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## **Expenditure Refunds (ER)**

### **Executive Summary**

An Expenditure Refund (ER) represents a return of funds originally paid to a vendor. The return may be due to a return of goods, an overpayment, an incorrect payment, or a refund received from a vendor due to the department's dissatisfaction with goods or services received or another contract adjustment.

Expenditure Refunds (ER) entered into MMARS must represent cash received and deposited to the Department's sweep account and posted to MMARS. Expenditure Refunds (ER) are returned to the original appropriation from which the amounts were expended. Specific year-end policies may require alternative processing of funds returned after the close of a fiscal year.

### **Policy**

The Comptroller has broad authority to prescribe accounting rules and instructions for all state departments and the appropriate use of the state accounting system. Pursuant to [M.G.L. c. 7A, § 7](#), [M.G.L. c. 7A, § 8](#), [M.G.L. c. 7A, § 9](#) and [M.G.L. c. 29, § 31](#) the Comptroller is required to implement a state accounting system (including a centralized payroll system) and issue instructions for the accounting practices to be used by all Departments for supplies, materials, assets, liabilities, equity, debt, encumbrances, expenditures, revenues, expenses and obligations of all Commonwealth funds and accounts, including payroll, unless specifically exempted by general or special law. The Comptroller has full authority to prescribe, regulate and make changes in the method of keeping and rendering accounts and is authorized to direct state departments to implement changes in their systems to meet these statewide standards. Please review "[State Finance Law and General Requirements](#)."

Expenditure Refund (ER) documents should be processed when the following circumstances have occurred:

- The department and the vendor have determined that the vendor was overpaid.
- The department and the vendor have determined that a duplicate payment was issued or paid.

- The department received a refund for goods returned.
- The department has requested a refund (full or partial) as an adjustment for dissatisfaction of goods or services, or other types of contract adjustments.

## **Procedure**

All Expenditure Refund (ER) Documents in excess of \$5,000 which pass normal system edits will attain a "Pending Status" and enter the Workflow process for review and approval by CTR General Accounting staff. Expenditure Refunds (ER) less than \$5,000 will be subject to periodic post-audit by the Comptroller's Quality Assurance staff. Departments are required to maintain the appropriate documentation for all ERs as outlined below.

- **Internal Documentation.** Both for internal department review and internal control purposes, and for audit and quality assurance purposes, the Chief Fiscal Officer (CFO) should oversee maintenance of documentation supporting a full explanation of the necessity for the ER, the Vendor Code of the vendor remitting payment, the payment reference ID of the payment that is being refunded and an explanation of what internal control steps are being taken to ensure that the same mistake or need for an ER will not occur in the future.
- **Enter and submit ER document in MMARS using "Comments" field.**
  1. **Event Type.** Expenditure Refund (ER) documents must be posted with event type **AR 99**, reflecting the re-posting of cash received and accounted for as current year revenue in a so-called sweep account. The second line for the ER should post **AR 32**.
  2. **Comments field of ER Document.** In an effort to expedite the review and processing of ERs that enter the Workflow process to CTR, Departments are required to enter the key information related to the ER into the "Comments" field of the ER document. The "Comments" field must contain a brief explanation for the necessity of the ER. This field has approximately 1500 characters, which should be sufficient to provide a reasonable explanation. Thoroughness in the use of the "Comments" field will in most cases obviate the need for submission of additional documentation. No approval on an ER will occur unless sufficient information is contained in the "Comments Field" to enable review.
  3. **Payment Reference ID.** The department must also "memo reference" the original payment document for which the refund was received on the ER Document in the "extended description" field within the ER header.

## **ERs within the Current Fiscal Year**

During a current fiscal year there is no distinction in original source of funds when an ER is processed.

### **ERs after Cash Cut-Off Date**

**Budgetary Appropriations.** After the cash cut-off date, as documented in the CTR annual Closing/Opening Instructions, any refunds for prior fiscal year activity for Budgetary Appropriations (1CS, 1CN, 1RS, 1RN, 1IN) must be processed as miscellaneous revenue (CR) in the new (current) fiscal year.

**Capital, Trust or Federal.** For refunds after the cash cut-off date but before the close of the accounts payable period, when the original payment request was made with funds from Capital (2CN), Trust (3TN), or Federal (4FN) accounts an ER will be processed in MMARS. Otherwise, CR documents are used.

For an ER's effect on encumbrances see, [Encumbrance Correction Documents](#) Policy.

### **Department Head Certifications When Submitting and ER to Final Status**

By submitting the ER to final status it is presumed that the ER has been approved by an authorized department head signatory with the appropriate signatory MMARS security, that the ER complies with this ER policy, that the ER is being submitted for a legitimate mistake, accounting error, refund or contract adjustment and not for an improper purpose, that the department maintains a complete file with all documentation related to the ER that will be available for inspection, and that the ER complies with other requirements of state finance law, and that the department will take appropriate steps to ensure that ERs related to mistakes or errors do not occur in the future.

By submitting the ER, the authorized signatory is certifying that any officer or employee who knowingly violates, authorizes or directs another officer or employee to violate any provision of state finance law relating to the incurring of liability or expenditure of public funds, including this ER policy, may be considered to be in violation of [M.G.L. c. 29, § 66](#), and therefore the Department agrees to ensure that the ER complies with, and that all fiscal, contract and programmatic staff involved are provided with sufficient training and oversight to ensure compliance with state finance law and this ER policy. (See [Department Head Signature Authorization and Electronic Signature for MMARS Documents](#))

### **Considerations**

Expenditure Refunds (ER) may be representative of an error in the original payment process. Department administrators responsible for reviewing payment activity should also review ER activity to determine if there is a potential weakness in the process for processing vendor payments that is responsible for the vendor refund.

### **Internal Controls**

It is the responsibility of the Department CFO or the appropriate Department Head authorized designee to validate the appropriateness of an ER, and to ensure that the request for the correction is consistent with the policy of the Comptroller and state finance law. Expenditure Refunds (ER) resulting from a refund due

to the actual return of goods or due to a refund received from the vendor resulting from the department's dissatisfaction with the goods received or a contract adjustment are routine business justifications. However, Expenditure Refunds (ER) resulting from overpayments, duplicate payments or payments to the incorrect vendor raise concerns. Departments should carefully review ER Documents and the reasons behind the need for the ERs to be processed. A high volume of ER Documents may indicate an underlying weakness in the department's internal controls for payment processing.

### **Information Sources**

Related Procedure – [Processing Expenditure Refunds for Vendor Overpayment Job Aid](#)

Related Policy:

- [Key State Finance Law Compliance Appointments and Responsibilities](#)
- [Department Head Signature Authorization and Electronic Signature for MMARS Documents](#)
- [Payroll Accounting: Refunds/Prior Period Adjustments](#)
- [Encumbrance Correction Documents](#)
- [Contracts Policies](#)
- [Accounts Payable Policies](#)
- [Records Management Policies](#)
- [Grants Management Policies](#)

Legal Authority:

- [Expenditure Classification Handbook](#);
- [M.G.L. c. 7A](#) (Office of the Comptroller); [M.G.L. c. 29](#) (State Finance Law);
- [M.G.L. c. 29, § 29D](#) (Debt Collection); [M.G.L. c. 29, § 29E](#) (Revenue Maximization);
- [M.G.L. c. 30, § 27](#) (Revenue Receipt); [M.G.L. c. 10, § 17B](#) (Revenue Receipt); Massachusetts Constitution [Article LXIII Section 1](#) (Revenue Receipt);
- [Comptroller regulations](#) (815 CMR 2.00 10.00);
- [M.G.L. c. 29, § 66](#) (State Finance Law Violations)

### **CTR HelpDesk**

**November 1, 2006.** Removed language referencing the Knowledge Center and updated relevant links to Mass.gov/osc portal site.